

Message Text

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FM AMEMBASSY SANTIAGO

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SUBJECT: INFLATION IN JULY

1. THE CONSUMER PRICE INDEX (CPI) INCREASED BY 8.9 PERCENT DURING JULY, EQUIVALENT TO A YEARLY RATE OF 178 PERCENT. THIS WAS THE LOWEST MONTHLY INCREASE OF THE CURRENT YEAR. CUMULATIVE INFLATION FOR 1976 NOW STANDS AT 107.5 PERCENT, WHICH, IF ANNUALIZED, WOULD COME TO 250 PERCENT.

2. INCREASES BY SECTORS WERE: FOOD, 11.3 PERCENT; HOUSING, 6.5 PERCENT; CLOTHING, 8.1 PERCENT AND MISCELLANEOUS, 5.2 PERCENT.

3. COMMENT. THE APPEARANCE OF EACH NEW MONTHLY CPI PERCENTAGE GIVES RISE TO COMPARISONS VARIOUSLY DESIGNED TO SHOW EITHER THAT THE GOC IS SUCCEEDING, (OR THAT IT IS NOT), IN ITS ANTI-INFLATIONARY EFFORTS. THOSE ARGUING FOR SUCCESS POINT OUT THAT INFLATION RATES MEASURED OVER PREVIOUS TWELVE-MONTH PERIODS HAVE BEEN DECLINING STEADILY SINCE DECEMBER 1974, FROM 341 PERCENT IN THAT MONTH TO 210 PERCENT IN JULY 1976.

4. MOREOVER, THE CUMULATIVE INFLATION FOR THE FIRST SEVEN MONTHS OF 1976, OF 107.5 PERCENT, COMPARES FAVORABLY WITH THAT OF THE FIRST SEVEN MONTHS OF 1975, WHICH WAS 195 PERCENT. FINALLY, THE GOC'S DEFENDERS POINT OUT THAT THE CHILEAN CPI

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IS NOT, REPEAT IS NOT, SEASONALLY ADJUSTED. THE JULY FIGURE

INCLUDED SEASONS HIGHS FOR JULY. THESE INCLUDE RED MEAT, POTATOES AND ONIONS, WHICH REPRESENT 7.8 PC OF THE MARKET BASKET.

5. ON THE NEGATIVE SIDE, HOWEVER, THE GOC'S CRITICS MIGHT WELL RECALL FINMIN CAUAS' SPEECH BEFORE THE CEPICIES IN APRIL 1976, IN WHICH HE COMPARED THE ANNUALIZED RATE OF ONLY 167 PERCENT FOR THE SECOND HALF OF 1975 WITH THE 678 PERCENT FOR THE FIRST HALF. THIS HE ADDUCED AS A MEASURE OF PROGRESS AGAINST INFLATION. THE ANNUALIZED RATE FOR THE FIRST SIX MONTHS OF 1976 OF 263 PERCENT DEMONSTRATED THAT INFLATION WAS FAR FROM BEING UNDER CONTROL. NOR DOES THE JULY 1976 RATE OF 8.9 PERCENT ADD MUCH CREDIBILITY TO THE EUPHORIC PREDICTIONS THAT ACCOMPANIED THE RECENT CAUAS/PINOCHET REVALUATION ANNOUNCEMENTS OF JUNE 29. THESE INCLUDED A DRAMATIC DROP FROM THE JUNE 1976 RATE OF 12.5 PERCENT, HOPEFULLY AS FAR DOWN AS 7 PERCENT FOR JULY.

6. MEANWHILE, THE CRAWLING DEVALUATION OF THE CHILEAN PESO ON THE BASIS ESTABLISHED ONE MONTH AGO CONTINUES. AS OF AUGUST 5 THE RATE IS 13.23 TO THE DOLLAR, IT ADVANCES IN SMALL DAILY STEPS TO 14.04 ON SEPTEMBER 4.

7. AN ANALYSIS OF CHILE'S OVERALL ECONOMIC SITUATION ONE MONTH AFTER PESO REVALUATION WILL FOLLOW BY SEPTTEL. POPPER

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